The Venture Evaluation Matrix Spreadsheet Tool

The Venture Evaluation Matrix Spreadsheet Tool is built to provide a simple but effective way to make the Venture Evaluation Matrix an operational tool. We discuss this extensively in section 5.5 of the book.

The Tool condenses in a single spreadsheet the information an investor has about a venture, whether from a first screening of a business plan or after a detailed due diligence. It can therefore be thought of as a process for quickly sorting through business plans in order to determine which ones are sufficiently promising for further evaluation, or as a way to visualize a deeper analysis.

The tool is based on the core elements of the Venture Evaluation Matrix (VEM) and on a weighting system. It then requires users to answer two sets of questions:

o First, for each cell of the VEM, users answer a set of questions that address that cell (for instance, the customer's Need). The Tool provides the questions we discuss in section 2.2 of the book as the default ones, but users can add their own questions, and even replace with them the ones from the book. Each question results in a numerical score, normalized from 1 to 10.

o Second, users define scores' relative weights. These weights rank numerical answers within each cell, but also rank the importance of each cell vis-à-vis the others. These weights represent the users' view of the relative importance of the different questions and VEM cells. Therefore, they reflect their view of what matters in venture selection. The Tool provides some baseline weights, but these can (and should!) be easily modified by users to reflect their own views. For students, changing weights is a good exercise in assessing how different views of venture selection play out in practice.

The Tool generates a single overall score, as well as several other summary scores, all expressed out of 10. Specifically, there is a score for each of the three perspectives of the VEM discussed in section 2.3.1 of the book: Value (micro perspective), Scale (macro perspective), and Growth (strategy/dynamic perspective). There is also a score for each of the three competitive advantages (Access, Entry Barriers, and Competencies). This allows users to look into different aspects and understand the overall ranking from different perspectives, leading to a deeper understanding of where the overall score.

The hardest part of evaluating business opportunities is determining what criteria actually matter. Every entrepreneurial opportunity has risks, but what risks are most relevant in each case? There are no objective answers here; this is where opinions start to diverge and where investment approaches matter. The Venture Evaluation Matrix forces investors to explicate their own preferences by defining a set of weights over the individual cell scores.

To help with this, the Tool also includes intuitive visual representations of the evaluation results. These are radar charts that map the scoring of each of the nine VEM cells. The radar chart is a representation that is particularly effective for identifying differences across 'dimensions,' which in our case are the VEM cell scores. The Tool also includes four simple metrics to aggregate cell scores: a simple average, a weighted average (with user-defined weights), the minimum across cells, and the maximum across cells. Users can add additional metrics. A discussion of these possibilities can be found in section 5.5 of the book, and an illustration in WorkHorse Box 5.12.

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